EFFECT OF TAX SAVINGS STRATEGIES ON THE FINANCIAL PERFORMANCE OF LISTED MANUFACTURING COMPANIES IN NIGERIA

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Abstract: This study investigated the effect of tax saving strategies on the financial performance of listed manufacturing companies in Nigeria. An ex-post facto research design was adopted for the study. Data were obtained from secondary sources, specifically the annual reports of three selected listed manufacturing companies over a period of ten years, resulting in 30 observations. The variables used for the analysis included Return on Assets (ROA) as the dependent variable, while Effective Tax Rate (ETR), Debt-to-Equity Ratio (DER), and Capital Intensity (CI) served as the explanatory variables. The data were analysed using regression analysis with the aid of the Statistical Package for Social Sciences (SPSS). The findings revealed that Effective Tax Rate had no significant relationship with the return on assets of listed manufacturing companies in Nigeria. In contrast, thin capitalisation showed a significant relationship with return on assets, while capital intensity was found to have no significant relationship with return on assets. Based on these findings, the study concluded that tax saving strategies can influence the financial performance of manufacturing firms, although the extent of such influence varies across the different tax-related measures considered. Accordingly, the study recommended that organisations should not rely solely on tax planning as a strategy for improving performance. Rather, they should also strengthen other key areas such as operational efficisency, cost control, product innovation, and market expansion in order to achieve more sustainable improvements in profitability and overall corporate growth.

Keywords: *Thin Capitalisation, Capital Intensity, Effective Tax Rate, Tax Savings Strategies.*

1.0 Introduction

Taxation holds significant importance in the Nigerian economy due to its substantial impact on government policies, economic growth, and development. It serves as a primary fiscal tool for the government in achieving sustainable growth objectives and is a key revenue source for financing public expenditures (Omesi & Appah, 2020). However, challenges confronting the tax systems of many developing countries, including Nigeria, have encouraged firms to adopt various strategies aimed at reducing their tax burden (Omesi & Appah, 2020). Strategies aimed at tax savings involve leveraging tax shelters and incentives provided by legislation, such as pioneer status recognition, asset acquisition allowances, and rural area investment benefits, with the goal of minimizing tax liabilities and optimizing financial resources for businesses (Jackson *et al.*, 2023). The utilization of these tax-saving strategies by manufacturing companies is common practice to enhance post-tax profit.

Tax savings strategies are vital drivers of performance. As taxes constitute a cost to organisations, they directly influence performance outcomes, reinforcing the importance of effective tax planning. Despite this importance, Nigeria's tax system faces critical challenges, including multiple taxation, weak regulatory reviews, administrative inefficiencies, and unclear provisions (Akintoye et al., 2020). These complexities hinder organisations operations, especially manufacturing companies, which form a vital component of the Nigerian economy. The resulting heavy tax burden limits some companies' ability to reinvest, expand, and compete effectively, pushing managers to adopt tax-saving strategies aimed at minimising liabilities and enhancing profitability.

Globally, tax-saving strategies such as debt financing, where interest payments are deductible, and non-debt tax shields like depreciation allowances and investment tax credits, have been shown to improve tax efficiency and strengthen firm performance (Adeleke & Mensah 2023). Similarly, effective taxation requires that organisations understand and leverage available incentives, including exemptions on loan interest, rollovers on capital gains, pioneer status benefits, and business loss reliefs.

The increasing adoption of tax saving strategies among Nigerian manufacturing firms has raised important questions regarding their actual effectiveness in improving corporate financial performance. While some firms appear to benefit from reduced effective tax rates and improved profitability, others continue to experience poor financial outcomes despite engaging in sophisticated tax planning activities. This inconsistency has created uncertainty among investors, policymakers, tax authorities, and corporate managers concerning the true impact of tax saving strategies on organizational performance. Against this background, there is a compelling need to investigate effect of tax savings strategies on the financial performance of listed manufacturing companies in Nigeria.

1.1 Research Hypotheses

H_{O1}: Effective Tax Rate has no significant relationship with the Return on Asset of listed manufacturing companies in Nigeria.

H_{O2}: Thin Capitalisation has no significant relationship with the Return on Asset of listed manufacturing companies in Nigeria.

H_{O3}: Capital Intensity has no significant relationship with the Return on Asset of listed manufacturing companies in Nigeria.

2.0 Theoretical Framework

2.1 Hoffman's Tax Planning Theory

Hoffman's Tax Planning Theory was developed by William Hoffman in 1961. The theory explains that firms should undertake tax planning with the objective of reducing taxable income as much as legally possible, provided such actions do not adversely affect accounting income. This position is based on the fact that tax liabilities are determined by taxable income rather than accounting profit. Consequently, firms are encouraged to direct their tax planning efforts toward strategies that minimise tax exposure without undermining the financial results reported in their accounts.

Hoffman (1961) further argued that tax planning can influence the financial performance of a firm when the benefits derived from tax-saving strategies exceed the costs associated with implementing those strategies. The theory therefore suggests a relationship between

tax planning and corporate financial performance, since successful tax planning may enhance profitability, cash flow, and shareholder value. Overall, Hoffman's theory provides a useful foundation for understanding how firms can lawfully structure their financial activities in ways that reduce tax obligations and potentially improve financial performance.

2.2 Pecking Order Theory

The pecking order theory (Myers & Majluf) argues that firms prefer internal financing, followed by debt, and lastly equity, due to information asymmetry and issuance costs. Debt becomes attractive because of its tax-deductible interest, making tax shields a central financing tool. However, over reliance on debt without stable earnings may harm long-term performance. In Nigeria manufacturing sector, high working capital needs often drive reliance on debt-based tax strategies, reflecting pecking order behavior. Nonetheless, the effectiveness of such strategies varies across companies, depending on their financial resilience and capacity to manage leverage.

2.3 Conceptual Framework

2.3.1 Tax Saving Strategies

Tax saving strategies refer to lawful financial and accounting techniques adopted by companies to reduce tax burdens while remaining compliant with existing tax laws and regulations. These strategies include the utilization of capital allowances, tax incentives, investment tax credits, debt financing, deferred tax management, pension contributions, loss relief provisions, transfer pricing arrangements, and effective tax planning mechanisms. Corporate organizations employ these strategies to improve cash flows, increase after-tax income, reduce operational costs, and strengthen overall financial performance (Omesi and Appah 2021).

Tax saving refers to the use of available tax incentives and reliefs provided under relevant tax laws to reduce the tax burden of corporate taxpayers. In Nigeria, such opportunities are derived from statutory provisions contained in laws such as the Companies Income Tax Act (CITA), Personal Income Tax Act (PITA), Value Added Tax (VAT) Act, and other related tax regulations. For tax planning to be effective, firms must have a sound understanding of the tax system, including fiscal policies, tax rules, and regulatory provisions issued by government. This is because tax planning depends largely on the ability of the firm to identify lawful opportunities for reducing tax exposure within the framework of the law.

Tax saving strategy is therefore an important component of financial planning, particularly in decisions relating to financing and capital structure. It provides tax managers and corporate organisations with the opportunity to minimise tax liabilities while improving the overall financial position of the firm (Udeme et al., 2025). In the same vein, Omesi and Appah (2021) explained that effective tax planning consists of strategies designed to maximise the present value of expected after-tax cash flows. By reducing tax outflows and preserving more earnings within the business, tax saving strategies may contribute positively to profitability, liquidity, and long-term financial performance.

2.3.2 Financial Performance

Financial performance refers to the extent to which a company is able to utilise its assets, resources, and business operations to generate profit and deliver value to its stakeholders within a given period. It shows the financial strength and overall health of a firm by indicating how effectively it meets key objectives such as profitability, liquidity, solvency, and operational efficiency. In broader terms, it provides an assessment of a company's position through elements such as revenue, expenses, assets, liabilities, equity, and profit level (Umo, 2022). The performance of a firm may be evaluated using financial indicators, non-financial indicators, or a combination of both.

According to Olayiwola and Okoro (2021), financial performance can be assessed using two broad approaches: absolute measures and relative measures. Absolute measures focus on the actual amount of profit generated by the firm, whereas relative measures are more useful for comparing the performance of one firm with another. In the literature, several indicators have been used to measure firm performance, with the most common being Return on Assets (ROA), Return on Equity (ROE), and Net Interest Margin (NIM). Net Interest Margin reflects the difference between interest earned on loans and interest paid on deposits. However, Adejumo and Sanyaolu (2020) argue that NIM is not a sufficient measure of performance for manufacturing firms because it does not adequately capture the efficiency with which such firms are managed. Among the available indicators, ROA and ROE remain the most widely accepted measures of financial performance. In this study, Return on Assets (ROA) is adopted as the proxy for financial performance.

2.3.3 Effective Tax Rate (ETR)

Effective Tax Rate (ETR) refers to the proportion of a company's pre-tax income that is paid as tax, and it provides insight into the actual tax burden borne by the firm relative to its earnings. It is commonly used to assess how efficiently a company manages its tax obligations. Where a firm adopts tax strategies that lower its effective tax rate without adversely affecting reported accounting income, such strategies may contribute positively to financial performance. This can occur through improved net earnings, stronger cash flows, higher profitability, and increased value to shareholders (Wang, 2020).

In the Nigerian tax environment, the Companies Income Tax rate is generally fixed at 30 percent of assessable profit (Akinbobola, 2021). Tax savings may therefore arise when a company's effective tax rate falls below the statutory tax rate. In practical terms, this savings represents the difference between the statutory rate and the effective tax rate, multiplied by profit before tax. This amount is often described as cash tax savings because it reflects the reduction in actual tax outflow resulting from tax planning strategies (Kportorgbi, 2023). Generally, a higher effective tax rate implies a heavier tax burden on the firm, whereas a lower effective tax rate indicates that a smaller portion of income is being paid as tax.

2.3.4 Thin Capitalization

Thin capitalization refers to a financing arrangement in which a company relies more heavily on debt than equity in funding its operations. In other words, a thinly capitalised firm maintains a high debt-to-equity ratio and is therefore often described as highly leveraged or highly geared (Jackson et al., 2023). The financing mix adopted by a

company can have important tax implications because it affects the amount of profit that remains subject to tax. Kayode and Folajinmi (2020) noted that the capital structure of a firm plays a major role in determining the level of profit reported for tax purposes. Similarly, Olamide et al. (2019) explained that thin capitalization is commonly used as a tax planning strategy whereby firms deliberately structure their financing in favour of debt. As the level of debt increases, interest obligations also rise, and because interest expenses are generally tax-deductible, taxable profit may be reduced accordingly (Akabom & Ejabu, 2018).

Pratama (2017) further observed that thin capitalization can be particularly useful to multinational companies through the use of intercompany loans. In such cases, a parent company located in a low-tax jurisdiction may provide loans to its subsidiary operating in a country with a higher tax rate. This allows the subsidiary to record interest expenses that reduce its taxable income, thereby lowering its tax liability. Owing to the potential abuse of this strategy, many countries have introduced thin capitalization rules to limit the deductibility of interest expenses once a firm's debt level exceeds a specified threshold. These rules are designed to prevent excessive debt financing from being used primarily as a means of reducing tax obligations.

In this study, thin capitalization is proxied by the debt-to-equity ratio, which reflects the extent to which a firm relies on debt relative to equity in financing its activities.

2.3.5 Capital Intensity

Capital intensity refers to the proportion of a company's total assets that is represented by non-current assets. It is commonly measured as the ratio of non-current assets to total assets and indicates the extent to which a firm has invested in long-term capital assets such as property, plant, and equipment. According to Fang et al. (2022), this measure reflects the level of capital commitment in a business and, by implication, the extent to which the firm may benefit from tax incentives attached to capital assets. Such incentives may include capital allowances, investment tax credit, and reinvestment allowance.

Capital intensity also reflects the amount of capital required by a firm to generate income and can therefore be viewed as an important financial decision of management. A company with a high level of capital intensity typically commits more funds to long-term assets in order to produce output and support operations. In practical terms, the more capital a company requires to generate a given level of output, the more capital-intensive it is considered to be.

From a tax planning perspective, capital intensity may influence the extent of tax savings available to a firm. Companies with substantial investment in non-current assets are often able to enjoy tax-deductible allowances and related incentives tied to those assets. As a result, higher capital intensity may contribute to tax reduction by lowering taxable profit through allowable deductions. In this way, investment in capital assets can serve as a means of reducing tax burden while at the same time supporting productive capacity and long-term profitability.

2. 4. Empirical Review

Tanko (2025) investigated how selected financial attributes affect corporate tax planning among listed manufacturing firms in Nigeria. The study relied on data extracted from the annual reports of sampled manufacturing companies and adopted a panel data approach for the analysis. In estimating the models, the fixed effect technique was applied to the parsimonious model, while the random effect technique was used for the moderated model. The findings revealed that financial leverage exerts a positive and statistically significant effect on the tax planning behaviour of the sampled manufacturing firms. In contrast, firm growth was found to have a significant negative effect on tax planning among listed manufacturing firms in Nigeria. The study further reported that real earnings management (REM) has a positive and significant influence on corporate tax planning.

Appah (2024) examined corporate governance attributes and tax planning of listed pharmaceutical companies in Nigeria. It was found that thin capitalization had a negative impact on return on equity, while effective tax rate, tax savings, and capital intensity showed insignificant effects. Taken together, these Nigerian studies suggest that the relationship between tax strategies and performance is mixed and often contingent on the type of strategy employed, with thin capitalization exhibiting inconsistent effects across different performance measures.

Igbinovia and Usman (2024), assessed tax avoidance, tax planning strategies and firm value of manufacturing firms in Nigeria. The study adopted thin capitalization, tax savings, book tax difference and capital intensity as measures of as tax avoidance and tax planning strategies. Secondary data was extracted from the audited annual reports of twenty-eight (28) manufacturing firms during the period 2014 to 2021. The result from the panel estimation technique show that thin capitalization exhibits a positive and it is statistically significant impact at 5% on Tobin's Q measure of listed manufacturing firms in Nigeria; book tax difference exhibit positive and inverse impact return on asset and Tobin's Q measure of performance of listed manufacturing firms in Nigeria respectively, and they are significant at 5%; and capital intensity exhibits an inverse and it is statistically significant impact at 5%.

Akinsulire *et al.* (2022) examined tax optimisation in Nigerian manufacturing firms and found that while effective tax rate negatively affected market value, thin capitalization and capital intensity exerted significant positive effects. This indicates that certain tax-saving strategies can contribute positively to performance, although their influence is strategy specific.

Adejumo and Sanyaolu (2020) investigated the effect of tax planning on the profitability of Nigerian deposit money banks using evidence from a dynamic panel model. The study employed an ex-post facto research design and utilised data obtained from the annual financial statements of nine sampled banks covering the period from 2012 to 2018. The findings revealed that tax planning, measured by effective tax rate, had a significant negative effect on profitability. In addition, the study reported that capital adequacy ratio, which was introduced as a control variable, exerted a significant positive influence on profitability.

3.0 Methodology

This study adopted an ex-post facto research design. The population of the study comprised all industrial goods manufacturing companies listed on the Nigerian Stock Exchange as at 2026. From this population, three companies were selected using the judgmental sampling technique. The choice of this sampling method was based on the availability and accessibility of relevant data on the official websites of the selected firms. Data for the study were obtained from the financial statements of the sampled companies and covered a ten-year period from 2015 to 2024.

To analyse the data and determine the nature of the relationship between the dependent and independent variables, the study employed multiple regression analysis. This technique was considered appropriate because it allows for the estimation of the effect of more than one explanatory variable on a single dependent variable, thereby making it suitable for examining the influence of tax saving strategies on the financial performance of the selected manufacturing companies.

3.1 Model Specification

The economic model used in the study is given as:

ROA = f (ETR, TC, CI)

Where:

ROA = Return on Asset

ETR = Effective Tax Rate

TC = Thin Capitalization

CI = Capital Intensity

B_0 = Constant to be estimated

B_1, B_2, B_3 coefficient of the explanatory variables

U = Stochastic error term.

4.0 Data Analysis

Table 1
Descriptive Statistics

	Mean	Std. Deviation	N
ROA (%)	12.5333	4.45503	30
ETR (%)	10.5327	16.54685	30
DER	.7293	.60471	30
CI	*.7387*	*.11467*	*30*

Source: Regression Results SPSS, 2026.

Table 1 is descriptive statistics which shows the mean and standard deviation.

*Return on Assets (ROA %): Mean = 12.5333%: On average, the sampled companies generate a return of 12.5*3% on their assets.Std. Deviation = 4.45503%: The profitability of individual companies deviates from the average by roughly 4.46%. This shows a relatively low and stable variance in profitability across the sample.

Effective Tax Rate (ETR %): Mean = 10.5327%, the average effective tax rate paid by the companies in the sample is 10.53%.Std. Deviation = 16.54685%: There is an extremely high variation (16.55%) in tax rates between companies because the standard

deviation is larger than the mean, some companies likely face zero or near-zero tax rates, while others face very high rates.

Debt to Equity Ratio (DER): Mean = 0.7293, on average, the companies use 0.73 units of debt for every 1 unit of equity. This indicates that the sampled firms generally rely more on equity than debt financing.Std. Deviation = 0.60471: Capital structures vary noticeably (0.60). This implies a mix of highly conservative, low-debt firms and highly leveraged, high-debt firms in your data.

Capital Intensity (CI): Mean = 0.7387, on average, 73.87% of the companies' total assets consist of fixed assets (like property, plant, and equipment). This reveals that your sample is heavily dominated by asset-intensive firms.Std. Deviation = 0.11467: The variation is very low (11.47%). Most companies in your dataset share a highly similar, asset-heavy operational structure.

Table 2
ANOVA[a]

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	189.682	3	63.227	4.260	.014[b]
	Residual	385.888	26	14.842		
	Total	575.570	29			

a. Dependent Variable: ROA (%)
b. Predictors: (Constant), CI, DER, ETR (%)
Source: Regression Results SPSS, 2026.

Table 2 shows the ANOVA results. The Sig. = .014: This is the most critical value because the p-value 0.014 is below the significance level of 0.05, the null hypothesis will be rejected.

Combination of the independent variables (CI, DER, and ETR) is a statistically significant predictor of Return on Assets (ROA). The model is reliable and does not predict ROA by pure chance.
Regression Sum of Squares = 189.682: This represents the amount of variance in ROA that is successfully explained by the three predictors. Residual Sum of Squares = 385.888: This represents the variation in ROA that predictors failed to explain (unexplained variance or error).

Total Sum of Squares = 575.570: The total variance in ROA across the 30 observations (189.682 + 385.888).

F-Value = 4.260**:** Calculated by dividing Mean Square Regression by Mean Square Residual (63.227 / 14.842). An F-statistic of 4.260 with a low p-value confirms that the variance explained by the model is significantly larger than the unexplained random error. A multiple linear regression analysis was performed to predict ROA based on Capital Intensity, Debt to Equity Ratio, and Effective Tax Rate. The results of the ANOVA indicated that the overall regression model is statistically significant, ($F(3, 26) = 4.260$), ($p = .014$).

Table 3
Coefficients[a]

Model		Unstandardized Coefficients B	Std. Error	Standardized Coefficients Beta	T	Sig.
1	(Constant)	21.662	5.121		4.230	.000
	ETR (%)	.081	.045	.302	1.804	.083
	DER	-2.636	1.185	-.358	-2.225	.035
	CI	-10.914	6.506	-.281	-1.678	.105

a. Dependent Variable: ROA (%)

R-Square	**=0.330**
Adjusted R-Square	=0.252
SE	=3.85251
F=Statistic	=4.260
Durbin Watson Statistic	=1.057

Source: Regression Results SPSS, 2026.

Table 3 shows the regression results summary. The implication of the signs in the regression result is that Return on Assets is positively affected by Effective Tax Rate, meaning that a 1 percent increase in Effective Tax Rate will lead to a 0.081 percent increase in Return on Assets. While1 percent increase in Debt-to-equity ratio will lead to a 2.636 percent decrease in Return on Assets, also1 percent increase in Capital Intensity will lead to a 10.914 percent decrease in Return on Assets.

The coefficient of determination R- square of 0.330 implies that 33 percent of the sample variation in the Return on Assets is explained or attributed to Effective Tax Rate, Debt-to-Equity Ratio and Capital Intensity. The Adjusted R- Square 0.252 reveals that the regression line captures 25.20 percent of the total variation in Return on Assets is caused by variation in the explanatory (independent) variables specified in the equation.

The F-statistic shows that the model is statistically significant at 5 percent level because F-statistic computed 4.260 is less than the F-statistic table value at 26degreeof freedom. F-p-value shows 0.014, this shows a positive non-significant relationship between the variables. The computed Durbin Watson value 1.057 falls within the inconclusive region of Durbin Watson partition curve. Hence, it indicates strong positive autocorrelation in the residual.

Test of Hypothesis I

H_{01}: Effective Tax Rate has no significant relationship with Return on Asset of listed manufacturing companies in Nigeria.

H_{A1}: Effective Tax Rate has a significant relationship with Return on Asset of listed manufacturing companies in Nigeria.

Since the computed t-value of 1.804 is lower than the table value of 2.056at 26 degree of freedom and p-value= 0.083< 0.05, the alternative hypothesis is rejected and the null hypothesis accepted that there is no significant relationship between Effective Tax Rate and the Return on Asset of listed manufacturing companies in Nigeria.

Test of Hypothesis II

H_{02}: Thin Capitalisation has has no significant relationship with the Return on Asset of listed manufacturing companies in Nigeria.

H_{A2}: Thin Capitalisationhas has a significant relationship with and the Return on Asset of listed manufacturing companies in Nigeria.

Since the computed t-value of 2.225is greater than the table value of 2.056at26 degree of freedom and p-value= 0.035< 0.05, the null hypothesis is rejected and the alternative hypothesis accepted, that there is a significant relationship between Thin Capitalisation and the Return on Asset of listed manufacturing companies in Nigeria.

Test of Hypothesis III

H_{02}: There is no significant relationship between Capital Intensity and the Return on Asset of listed manufacturing companies in Nigeria.

H_{A2}: There is a significant relationship between Capital Intensity and the Return on Asset of listed manufacturing companies in Nigeria.

Since the computed t-value of 1.678is lower than the table value of 2.056 at 26 degree of freedom and p-value= 0.105>0.05the alternative hypothesis is rejected and the null hypothesis accepted, that there is no significant relationship between Capital Intensity and the Return on Asset of listed manufacturing companies in Nigeria.

4.0 Findings and Discussion

The findings of the study show that there is no significant relationship between Effective Tax Rate and the Return on Asset of listed manufacturing companies in Nigeria. The effective tax rate was insignificant, indicating that statutory tax burdens alone do not drive company's financial performance. This alignswith the findings of Omesi & Appah (2021) and Umeh et al., (2020) which documented proof that tax savings have a negative relationship with financial performance.

There is a significant relationship between Thin Capitalisation and the Return on Asset of listed manufacturing companies in Nigeria. Thin capitalization produced the most notable results, showing a negative impact on weaker companies but a positive and significant influence on highly profitable companies. The relationship between thin capitalization and ROA suggests that manufacturing companies that employ thin capitalization strategies tend to have higher returns on assets. This finding is consistent with the notion that thin capitalization as a tax planning strategy contributes to the improved financial performance. This agrees with the findings of Adeleke and Mensah (2023).

There is no significant relationship between Capital Intensity and the Return on Asset of listed manufacturing companies in Nigeria. It shows that capital intensity negatively and significantly affects manufacturing companies. The implication is that excessive

investment in non-current assets reduces the financial performance for underperforming manufacturing companies. The findings is in the same direction with the finding of Jackson and Ine-Tonbarapa (2023) who found that no significant relationship between capital intensity and profit after tax of quoted pharmaceutical companies in Nigerian Stock Exchange market.

5.0 Recommendations

The following recommendations were suggested by the researcher:

1. Organisations should take advantage of the tax deductibility of debt as a preferred source of finance by strategically employ more debt than equity. Managers of listed manufacturing companies in Nigeria should adopt thin capitalization strategies, and consider investing in capital-intensive projects to improve their financial performance.
2. Government and regulatory bodies should strengthen oversight on debt financing and provide clearer guidelines to prevent excessive leverage that will have negative impact on the overall economy of Nigeria.
3. Listed manufacturing companies in Nigeria should adopt appropriate tax planning measures such as effective tax rate management, thin capitalization, and capital intensity in a lawful and strategic manner to reduce tax burden and improve financial performance.
4. Corporate managers should not place excessive dependence on tax planning as the sole driver of firm performance. Rather, they should complement tax planning efforts with sound operational strategies such as improved efficiency, prudent cost management, product development, and market expansion in order to achieve sustainable growth and stronger financial outcomes.

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